Avista Corp.
1411 East Mission P.O. Box 3727
Spokane. Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA Corp.

February 25, 2019

Diane Hanian, Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702

RE: **Avista Comments in support of the Settlement & Stipulation in AVU-E-18-03 and AVU-G-18-02**

Enclosed for filing with the Commission are an original and seven copies of Avista's Comments in support of the Stipulation and Settlement by Avista Corporation, dba Avista Utilities (Avista), dated February 14, 2019.

If you have any questions regarding the proposed filing, please contact Karen Schuh at (509) 495-2293.

Sincerely,

David J. Meyer
Vice President and Chief Counsel for Regulatory & Governmental Affairs

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 25th day of February, 2019, served the foregoing Comments in Support of Stipulation and Settlement in Docket No. AVU-E-18-03 and AVU-G-18-02, upon the following parties, by mailing a copy thereof, properly addressed with postage prepaid to:

Diane Hanian, Secretary Idaho Public Utilities Commission Statehouse Boise, ID 83720-5983 diane.hanian@puc.idaho.gov	Brandon Karpen Deputy Attorneys General Idaho Public Utilities Commission 472 W. Washington Boise, ID 83702-0659 brandon.karpen@puc.idaho.gov
SIERRA CLUB: Matt Gerhart Sierra Club 2101 Webster Street, Suite 1300 Oakland, CA 94612 415-977-5727 Matt.Gerhart@sierraclub.org Ana.boyd@sierraclub.org □ via Overnight ■ via E-Mail	**IDAHO CONSERVATION LEAGUE:** Benjamin J. Otto Idaho Conservation League 710 N. 6th St. Boise, ID 83702 208-345-9633 x 12 botto@idahoconservation.org ■ via Overnight ■ via E-Mail
CLEARWATER PAPER CORP.: Peter Richardson Richardson Adams, PLLC 515 N. 27th St Boise, ID 83702 208-938-7901 peter@richardsonadams.com ■ via Overnight ■ via E-Mail	**CLEARWATER PAPER CORP.:** Dr. Don Reading 6070 Hill Road Boise, ID 83703 208-342-1700 dreading@mindspring.com ■ via Overnight ■ via E-Mail
CLEARWATER PAPER CORP.: marv.lewallen@clearwaterpaper.com carol.haugen@clearwaterpaper.com □ via Overnight ■ via E-Mail	**IDAHO FOREST GROUP:** 687 Canfield Ave. Suite 100 Coeur D'Alene, ID 83815 □ via Overnight □ via E-Mail
IDAHO FOREST GROUP: Ronald Williams Williams Bradbury, P.C. PO Box 388 Boise, ID 83701 208-344-6633 ron@williamsbradbury.com ■ via Overnight ■ via E-Mail	**IDAHO FOREST GROUP:** Dean Miller 3620 E Warm Springs Ave. Boise, ID 83716 deanmiller@cableone.net ■ via Overnight ■ via E-Mail

IDAHO FOREST GROUP: Larry Crowley, Director The Energy Strategies Institute, Inc. 5549 S. Cliffsedge Ave. Boise, ID 83716 crowleyla@aol.com □ via Overnight ■ via E-Mail	
■□	
	Paul Kimball Manager of Compliance & Discovery

David J. Meyer, Esq.
Vice President and Chief Counsel of
Regulatory and Governmental Affairs
Avista Corporation
1411 E. Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4316, Fax: (509) 495-8851

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF AVISTA CORPORATION DBA	)	CASE NO. AVU-E-18-03
AVISTA UTILITIES REQUESTING	)	CASE NO. AVU-G-18-02
AUTHORITY TO REVISE ITS ELECTRIC	)	
AND NATURAL GAS BOOK	)	**COMMENTS OF AVISTA IN**
DEPRECIATION RATES	)	**SUPPORT OF STIPULATION**

COMES NOW Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), by and through its attorney of record, David J. Meyer, and responsive to the Motion for Approval of Stipulation and Settlement filed on February 14, 2019 with the Idaho Public Utilities Commission ("IPUC" or the "Commission") in the above referenced cases, submits the following comments.

BACKGROUND

On February 23, 2018, Avista filed an application requesting authority to revise its book depreciation rates. The Company requested authorization to revise its book depreciation rates consistent with the results of the depreciation study undertaken by the Company.[1] That study showed that the Idaho share of annual depreciation expense recorded to O&M and A&G expense on the Company's books should be increased by approximately $1,275,324 for electric plant and

[1] Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, gas and common plant in service. The study was completed in 2017. The objective of this assignment was to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes.

decreased by approximately $487,632 for natural gas plant, based on the average service life rates of plant in service as of December 31, 2016.[2]

On August 22, 2018 the Company, filed an "Agreed-Upon Motion to Revise Schedule," which included an extension of the implementation date for new depreciation rates from January 1, 2019 to April 1, 2019. That request was approved by the Commission in Order No. 34133 on August 30, 2018. On December 11, 2018 and January 22, 2019, settlement conferences were held and attended by the Parties. Those conferences ultimately led to a Settlement and Stipulation filed on February 14, 2019.

The Parties ultimately reached agreement on revisions to the Company's book depreciation rates. If ultimately approved by the Commission, in accordance with this Stipulation, such rates would constitute revised depreciation rates, which would become effective for accounting purposes on April 1, 2019, for both Idaho direct and common plant. Customer rates, however, to reflect the revised depreciation rates would not change until inclusion in the Company's next general rate case, as discussed below.[3] Approval of the Stipulation by April 1, 2019 also provides for the opportunity to simultaneously implement new depreciation rates for accounting purposes for common plant in all three jurisdictions in which Avista serves: Idaho, Washington, and Oregon.[4] Allowing Idaho common depreciation rate changes to be effective for accounting purposes at the same time as the other two jurisdictions will synchronize the timing of the Company's common depreciation accounting changes for the three States, simplifying future

[2] These balances reflect corrected amounts from that shown in the Company's originally filed application as discussed further on page 4.

[3] The Parties agree, as discussed below, that the remaining deferred tax benefit of $5.766 million not used to accelerate the depreciation of Colstrip, would be returned to customers in a separate Tariff Schedule 74 over a one year period beginning April 1, 2019.

[4] In Oregon, the Commission approved a Stipulation that will adjust common plant depreciation items on April 1, 2019. An all-party Settlement Stipulation is pending before the Washington Utilities and Transportation Commission, with a proposed April 1, 2019 effective date.

accounting and audits of depreciation expense, if the same rates and methodology are in effect for all jurisdictions.

SUMMARY TERMS OF SETTLEMENT

Under the terms of the Stipulation, depreciation rates will change effective April 1, 2019 within the Company's books of record. Customer rates, however, will not reflect this change until the Company's next general rate case.[5/6] Before reflecting the agreed-upon depreciation rates for the Colstrip generating plant, the change in all other electric depreciation rate changes (based upon plant balances at December 31, 2016) results in an annual reduction to electric depreciation expense of $101,656. After reflecting the agreed-upon revisions to Colstrip Units 3 and 4 to reflect an earlier 2027 depreciable date for depreciation purposes results in an annual overall electric increase in depreciation and amortization expense of $678,434.

For natural gas, reflecting the agreed-upon depreciation rates for natural gas operations, based upon plant balances at December 31, 2016, results in an annual overall decrease in depreciation expense of approximately $487,780. Summary Table I below captures the agreed-upon results:

[5] Until that time, the Company will absorb any differences in depreciation/amortization expense. On an annual basis, the net decrease of $487,780 for natural gas depreciation expense, versus the net increase of $678,434 for electric depreciation/amortization expense results in an annual increase in expense overall of approximately $191,000, which will be absorbed by the Company. The Company will only be allowed to absorb the natural gas reduction to depreciation expense, to offset the electric increase in depreciation/amortization expense, until a change in rates as a result of the Company's next general rate case, provided that the Company has filed its next general rate case prior to the effective date of its 2019 Purchased Gas Adjustment (PGA).

[6] The agreed-upon depreciation rates are shown in Attachments A and C to the Stipulation. Attachment A provides detail of the affected plant accounts, specified depreciation rates, and the Idaho allocated share of the depreciation expense impact on December 31, 2016 plant balances. Attachment C provides the agreed-upon depreciation rates specific to the Colstrip Units 3 and 4 assets, as discussed in Paragraph 13 of the Stipulation.

Table I – Summary of Impact on Depreciation Expense with and without Colstrip[7]

Line		Electric	Gas
1	Depreciation study net impact per filings	$ 978,934	$ (542,802)
2	Inadvertent reduction included in petition in error	296,390	55,170
3	Revised depreciation study net impact	**1,275,324**	**(487,632)**
4	Remove Colstrip	(735,171)	-
5	Net impact excluding Colstrip	**540,153**	**(487,632)**
6	Agreed upon changes		
7	Common-Transportation	(979)	(148)
8	Common - Transmission	(126,304)	-
9	ID Electric Distribution	(514,526)	-
10	Total Idaho Adjustments	**(641,809)**	**(148)**
11	New impact **excluding** Colstrip	**(101,656)**	**(487,780)**
12	Proposed Colstrip Amortization	780,090	
13	Net Impact **including** Colstrip	**$ 678,434**	**$ (487,780)**

The following describes each of the agreed-upon adjustments:

- Line 2 "Inadvertent reduction included in petition in error" reflects a benefit, or reduction in depreciation expense, inadvertently included in the Company's original petition balances, which showed a larger reduction in overall depreciation expense for natural gas and a smaller increase in electric overall depreciation than will actually occur.[8] Line 3 provides the depreciation study net impact balance per the filed depreciation study.

- Line 7 "Common – Transportation" reflects the Idaho share of the Parties accepting the change agreed to by the Company in the Company's Oregon depreciation settlement agreement, that included a change to the salvage percent for certain common gas transportation assets. Transportation assets are common assets to all jurisdictions due to the pooling of the Company's depreciation expense. Therefore, these changes are also being proposed in Washington and Idaho. The impact to

[7] Line 4, column Electric of Table I above "Remove Colstrip" of $735,171, reflects the impact of revised Colstrip depreciation as filed, which reflects a 2034-2036 depreciable life. This line removes the impact of Colstrip depreciation for informational purposes to show the as filed change in depreciation excluding the impact of Colstrip (or $540,153).

[8] This was a calculation prepared by the Company's depreciation consultant for excess theoretical depreciation balance reserves for informational purposes. The Company determined that the actual reserve (accumulated depreciation) is properly stated, as it included previously-approved depreciation rates by the Company's State Commissions. The excess theoretical reserve, however, does not reduce future annual depreciation expense, and will reverse over time. As such, it should not have been included in the estimated depreciation change in balances as stated in the Company's original petition. This correction has no impact on depreciation rates proposed in the filed depreciation study.

Idaho Electric and Natural Gas is a $979 reduction and a $148 reduction, respectively, as shown on line 7.

- Line 8, "Common Transmission" reflects the Parties agreement to change Common Transmission account *356 Overhead Conductor and Devices* from a curve life of 65-R3 to a 70-R3, which changes the depreciation rate from 2.14% to 1.90%. The overall impact of this agreement reduces Idaho Electric depreciation expense by approximately $126,304.

- Line 9, "Idaho Electric Distribution" reflects the Parties agreement to change Idaho Electric Distribution account *365 Overhead Conductors and Devices*, from a curve life of 60-R3 to a 65-R3.5, which changes the depreciation rate from 2.82% to 2.45%. The overall impact of this adjustment reduces Idaho Electric depreciation expense by approximately $223,358. In addition, the Parties agreed to change Idaho Electric Distribution account *367 Underground Conductors and Devices*, from a salvage percent of -30 to a salvage percent of -20, which changes the depreciation rate from 3.44% to 2.99%. The overall impact of this adjustment further reduces Idaho Electric depreciation expense by approximately $291,168. The effect of both of these distribution adjustments decreases depreciation expense by approximately $514,526 as shown on line 9.

In addition, as described on Page VI-17 of the depreciation study, FERC AR-15 allows utilities to utilize vintage year accounting for general plant assets, including FERC Account Nos. 391 through 399, as long as certain requirements are met.[9] Avista has utilized vintage year accounting for all general plant accounts, except FERC Account No. 397 – Communication Equipment. Avista proposed, and the Parties accepted, vintage year accounting treatment of Account No. 397 per FERC AR-15.

COLSTRIP

Avista owns a 15% share of two coal-fired generation facilities located in Colstrip, Montana, known as Colstrip Units 3 and 4, which have a combined capacity of about 1,480 MW.

[9] FERC AR-15 Vintage year accounting for general plant accounts, permits public utilities to adopt a vintage year accounting method for general plant accounts, which would eliminate the unitization and record keeping requirements associated with individual items of property and allow companies to record only the total cost of plant additions for the year as a vintage group for each account.

These two facilities were placed in service in 1984 and 1986. No decommissioning date has been established for these assets. Current rates include depreciation expense on Colstrip Units 3 and 4 with assumed remaining useful lives of these units through December 31, 2034 and December 31, 2036, respectively. Contained within the Settlement Stipulation are the following provisions. First, the Company agrees to adopt a depreciation schedule for Colstrip Units 3 and 4 that assumes a remaining useful life for depreciation purposes of December 31, 2027. The Parties also acknowledge that there presently is no plan to close Colstrip Units 3 and 4 by a specific date, nor has Avista agreed to do so.

Second, Colstrip Units 3 and 4 generation and transmission asset balances at December 31, 2017, offset by accumulated depreciation through March 31, 2019, as well as estimated asset retirement obligations (ARO) previously not included in rates, produces an <u>undepreciated</u> balance for Colstrip Units 3 and 4 as of March 31, 2019 of approximately $55.18 million. This undepreciated balance of $55.18 million will be recovered as follows:

1) Use of $6.41 million (ID share) of "temporary" tax credits will be used as an offset. These tax credits were described in Avista's "Report on Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking" (Case No. GNR-U-18-01);[10]

2) Annual Colstrip depreciation expense will remain at the current depreciation level of $2.475 million per year[11], over the remaining 8.75 years, totaling $21.66 million;

3) The remaining balance of $27.11 million will be recovered through the amortization of a Regulatory Asset (FERC Account No. 183.3). The amortization schedule of the Regulatory Asset will be structured to match the amortization schedule of protected Excess Deferred Federal Income Taxes (DFIT) benefit that began being returned to customers on June 1, 2018 (as described in Case No. GNR-U-18-01). Using a 34.75 year amortization, consistent with the remaining protected Excess DFIT schedule, results in an annual amortization of approximately $780,000 per year – ID share. The amortization of the Regulatory Asset over time,

[10] Per order No. 34070, in Case No. GNR-U-18-01 "In the Matter of the Investigation into the Impact of Federal Tax Code Revisions on Utility costs and Ratemaking," approving the all-party Stipulation and Settlement proposed in that proceeding, the Commission approved the set-aside of electric temporary tax benefits of approximately $12.0 million to offset costs associated with accelerated depreciation of Colstrip Units 3 and 4, or other purposes.
[11] Annual depreciation expense is approximately $7.0 million on a system-basis.

therefore, would be recovered from customers over the same time period as the amortization of protected Excess DFIT is returned to customers, offsetting the entire remaining Colstrip Regulatory Asset over the 34.75 years. This figure is also shown at Column Electric, Line 12 of Table I above. The Regulatory Asset, net of accumulated deferred federal income taxes, will be included in rate base and will earn Avista's rate of return.[12]

4) Starting April 1, 2019, Colstrip capital additions will be depreciated at the revised depreciation rates reflecting a 2027 depreciable life (see Attachment C for specific revised Colstrip depreciation rates). Prudency of any capital additions not yet in current rates (beyond December 31, 2017) are subject to review in future rate proceedings.

5) The Parties agree that the remaining deferred tax benefit of $5.766 million[13], not used to offset the Colstrip balance of $55.18 million shown in Table I above, associated with Idaho electric tax benefits deferred January 1, 2018 through May 30, 2018, will be returned to customers in a separate Tariff Schedule 74 over a one year period beginning April 1, 2019. The annual bill impact to customers is an overall reduction of 2.23 percent. The monthly residential bill impact is a reduction of 2.38 percent or $2.04 based on an average 910 kWhs.[14] These tax credits were described in Avista's "Report on Impact of Federal Tax Code Revisions on Utility Costs and Ratemaking" (Case No. GNR-U-18-01).

Amortizing the Colstrip Regulatory Asset over 34.75 years results in an annual regulatory amortization expense of approximately $0.8 million. Consistent with the change in depreciation rates effective April 1, 2019, on the Company's books, the Parties agreed Avista will begin amortizing the Colstrip Regulatory Asset effective April 1, 2019. However, this increase in amortization expense will not be adjusted in customer rates until Avista's next general rate case. In addition, the Colstrip Regulatory Asset balance, net of accumulated deferred federal income

[12] The Colstrip related accounts included as rate base include the following: FERC Account No. 101.0 – Plant Cost, FERC Account No. 108.0 – Accumulated Depreciation, FERC Account No. 182.3 – Regulatory Asset ARO, FERC Account No. 182.3 – Regulatory Asset Colstrip, FERC Account No. 230.0 – Colstrip ARO, and FERC Account No. 242.0 – Colstrip Accounts Payable.

[13] See footnote 10. The set-aside of electric temporary tax benefits totaling $12.175 million in Case No. GNR-U-18-01, less the $6.409 million used to offset Colstrip accelerated depreciation, results in remaining tax benefit due to customers of $5.766 million.

[14] Included as Attachment D to the Stipulation is a summary of the net amortization and depreciation expense ($645,000) agreed to in this Settlement, including the bill impact to customers of this change, effective with the Company's next general rate case. Also summarized is the annual tax credit benefit ($5.766 million) returned to customers, as well as the bill impact (benefit) to customers effective April 1, 2019 – March 30, 2020.

taxes and other related accounts, will be included as rate base in the Company's next general rate case and will earn Avista's authorized rate of return.

The use of 34.75 years to amortize the Colstrip Regulatory Asset was chosen to coincide with the remaining amortization period of Tax Cut and Jobs Act ("TCJA") protected Excess DFIT tax benefits being returned to customers beginning May 1, 2018. Avista has an Idaho electric plant excess ADFIT balance (Regulatory Liability) of approximately $106.4 million. In accordance with the TCJA's Average Rate Assumption Method ("ARAM"), the Company is required to reverse (i.e. normalize) these balances over the depreciable lives of its capital assets that created the Accumulated Deferred Federal Income Tax ("ADFIT"), estimated to be approximately 36 years (or $2.7 million annual benefit) as of January 1, 2018. With April 1, 2019 being 1.25 years after January 1, 2018 (the effective date of the TCJA), the remaining life of the ARAM is 34.75 years, hence the use of that figure for the Colstrip Regulatory Asset. The concurrent timing of both the return of the TCJA protected excess ADFIT benefit, coinciding with the collection of amortization expense associated with the acceleration of Colstrip Units 3 and 4 depreciation, results in a unique opportunity to offset intergeneration inequities that has occurred and will occur in the future.

As it relates to intergenerational inequities, Avista over a period of years has collected funds from past ratepayers for the purpose of paying taxes at a future date in the form of Deferred Federal Income Taxes, or DFIT. However, as noted above, with the passing of the TCJA in December 2017, and the revaluation of its assets from a 35% to a 21% deferred tax rate, these funds ($106.4 million Idaho electric) are no longer obligated to be paid in the future, and therefore, it is appropriate to return these funds to customers. However, "ratepayers" are a constantly-changing group. Therefore, the ratepayers which have paid for the DFIT expense in the past, will not be the same customers who will receive the return of these funds in the future.

Similarly, the depreciation study filed by the Company includes an Asset Retirement Obligation associated with Colstrip Units 3 and 4 that has not previously been collected from customers, totaling approximately $38 million (system), and the current depreciation schedule for Colstrip Units 3 and 4 has been at 2034 and 2036, respectively. Recently, however, with the impact of coal-fired power plants around the country closing much sooner than anticipated by utilities and their regulators, it has become a higher risk that ratepayers in the near and medium term could incur more than their fair share of costs. Although the actual closure date of Colstrip Units 3 and 4 are undetermined, if a shorter life had been anticipated, depreciation rates would have been higher for previous customers, and future depreciation expenses related to these plants would be lower.

By matching the amortization schedule of the regulatory asset (which can be thought of as the portion of Colstrip 3 & 4 costs under-recovered from previous generations of customers) to the amortization schedule of the regulatory liability (which are excess taxes paid by previous generations of customers), we will have matched the flow of funds from previous generations of customers to cover the flow of costs attributable to previous generations of customers. As a result, we will have mitigated the intergenerational inequities related to Colstrip 3 and 4, particularly in the event that Colstrip 3 and 4 have a shorter economic life than currently anticipated – all while maintaining the status quo for ratepayers in terms of recovering depreciation expense.

Finally, the methodology agreed to in Idaho is exactly the same as the methodology that has been agreed to by all of the parties in our Washington depreciation docket (UE-180167). That Settlement Stipulation is pending before the Washington Utilities and Transportation Commission for approval.

SETTLEMENT STIPULATION IS IN THE PUBLIC INTEREST

Avista believes that the Stipulation is in the public interest for a number of reasons. The Settlement strikes a reasonable balance between the interests of Avista and its customers on depreciation rates and depreciation expense. The Settlement Stipulation was a compromise among differing interests and represents give-and-take. The Settlement Stipulation was entered into following formal and informal discovery, audit and review of the Company's filing and books and records.

Under the terms of the Settlement, the Parties agree that Avista will implement new electric and natural gas depreciation rates beginning April 1, 2019. Customers rates, however, will not reflect this change until the conclusion of the Company's next general rate case. As the Settlement relates to the treatment of Colstrip Units 3 and 4 assets, this Settlement makes use of temporary tax credits associated with the TCJA as an offset, and presents a unique opportunity to resolve the intergenerational inequities of accelerating the depreciation of these units to 2027 from 2034 and 2036, respectively. While the Settlement does not dictate any specific closing date at these units, it adopts certain measures that will mitigate the risk and increased expenses to Avista's customers, while providing fair recovery to Avista for past capital expenditures.

Finally, the overall increase to depreciation/amortization expense of approximately $679,000 for Idaho Electric and reduction to depreciation/amortization expense of approximately $488,000 for Natural Gas, will be reflected in future rate case proceedings, and is in the public interest.

DATED this 25th day of February, 2019.

Avista Corporation

By: ______________________

David J. Meyer
Attorney for Avista Corporation